

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Members of the Butler County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise Butler County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated Butler County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

Peercy and Gray, PSC, has completed the audit of the Butler County Fiscal Court for fiscal year ended June 30, 2008. We have issued an unqualified opinion on the governmental activities, business-type activities, and each major fund of Butler County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$4,576,678 as of June 30, 2008. The fiscal court had unrestricted net assets of \$1,834,534 in its governmental activities as of June 30, 2008 with total net assets of \$4,568,039. In its business-type activities, total cash and cash equivalents were \$8,639 with total net assets of \$8,639. The fiscal court had total financing obligations of \$572,425 as of June 30, 2008 with \$174,426 due within the next year.

Report Comment:

- The Fiscal Court Should Record Capital Assets In Accordance With The Approved Capitalization Policy

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Butler County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2008 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Should Record Capital Assets In Accordance With The Approved Capitalization Policy

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

October 17, 2008

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

David Fields	County Judge/Executive
Roger McKinney	Magistrate
Stevie Givens	Magistrate
Allen Smith	Magistrate
Darrell Deweese	Magistrate
Keith Daugherty	Magistrate

Other Elected Officials:

Melissa Cardwell	Circuit Court Clerk
Richard Deye	County Attorney
Terry Fugate	Jailer
Shirley Givens	County Clerk
Joe Gaddie	County Sheriff
Angela Pendley	Property Valuation Administrator
Gerald Marty Jones II	Coroner

Appointed Personnel:

Susan Johnson	County Treasurer
Susan Johnson	Occupational Tax Administrator
Kim Phelps	Finance Officer
Kim Phelps	Personnel Officer
Larry Morris	Road Supervisor
Galon Neighbors and Marilyn Phelps	911 Administrator
Kelly Fugate	Jail Administrative Assistant/Bookkeeper

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BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,856,446	\$ 8,639	\$ 1,865,085
Assets Held for Resale	102,655		102,655
Total Current Assets	1,959,101	8,639	1,967,740
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	191,933		191,933
Construction In Progress	37,515		37,515
Buildings	508,213		508,213
Other Equipment	275,100		275,100
Vehicles and Equipment	69,856		69,856
Infrastructure	2,098,746		2,098,746
Total Noncurrent Assets	3,181,363		3,181,363
Total Assets	5,140,464	8,639	5,149,103
LIABILITIES			
Current Liabilities:			
Financing Obligations	174,426		174,426
Total Current Liabilities	174,426		174,426
Noncurrent Liabilities:			
Financing Obligations	397,999		397,999
Total Noncurrent Liabilities	397,999		397,999
Total Liabilities	572,425		572,425
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	2,711,593		2,711,593
Restricted For:			
Debt Service	21,912		21,912
Unrestricted	1,834,534	8,639	1,843,173
Total Net Assets	\$ 4,568,039	\$ 8,639	\$ 4,576,678

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,440,176	\$ 144,457	\$ 144,366	\$
Protection to Persons and Property	964,176	57,751	366,562	
General Health and Sanitation	95,350			
Social Services	26,503			
Recreation and Culture	5,467			
Roads	1,163,988		2,147,512	
Interest on Debt Service	32,973			
Capital Projects	56,136			
Total Governmental Activities	3,784,769	202,208	2,658,440	0
Business-type Activities:				
Jail Canteen	50,388	49,084		
Total Business-type Activities	50,388	49,084		
Total Primary Government	\$ 3,835,157	\$ 251,292	\$ 2,658,440	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Net Profit Taxes

Occupational Taxes

Other Taxes

Telephone 911 Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,151,353)	\$	\$ (1,151,353)
(539,863)		(539,863)
(95,350)		(95,350)
(26,503)		(26,503)
(5,467)		(5,467)
983,524		983,524
(32,973)		(32,973)
(56,136)		(56,136)
(924,121)		(924,121)
	(1,304)	(1,304)
	(1,304)	(1,304)
(924,121)	(1,304)	(925,425)
249,863		249,863
11,334		11,334
77,186		77,186
192,348		192,348
647,599		647,599
177,795		177,795
35,982		35,982
196,690		196,690
42,268		42,268
214,438		214,438
1,845,503		1,845,503
921,382	(1,304)	920,078
3,646,657	9,943	3,656,600
\$ 4,568,039	\$ 8,639	\$ 4,576,678

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	LGEA Fund	Debt Service Fund	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 1,108,853	\$ 675,836	\$ 23,168	\$ 26,677	\$ 21,912	\$ 1,856,446
Total Assets	<u>1,108,853</u>	<u>675,836</u>	<u>23,168</u>	<u>26,677</u>	<u>21,912</u>	<u>1,856,446</u>
FUND BALANCES						
Reserved:						
Encumbrances	173		12			185
Unreserved:						
General Fund	1,108,680					1,108,680
Special Revenue Funds		675,836	23,156	26,677		725,669
Debt Service Fund					21,912	21,912
Total Fund Balances	<u>\$ 1,108,853</u>	<u>\$ 675,836</u>	<u>\$ 23,168</u>	<u>\$ 26,677</u>	<u>\$ 21,912</u>	<u>\$ 1,856,446</u>

Reconciliation to Statement of Net Assets:

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Total Fund Balances	\$ 1,856,446
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	5,704,078
Accumulated Depreciation	(2,522,715)
Assets Held for Resale	102,655
Financing Obligations Are Not Due And Payable In The Current Period And, Therefore, Are Not Reported In The Funds.	<u>(572,425)</u>
Net Assets Of Governmental Activities	<u>\$ 4,568,039</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,317,309	\$	\$
In Lieu Tax Payments	74,798		
Excess Fees	196,690		
Intergovernmental	96,686	2,105,043	366,562
Charges for Services	144,457		57,751
Miscellaneous	160,522	38,793	15,123
Interest	27,143	13,816	
Total Revenues	<u>2,017,605</u>	<u>2,157,652</u>	<u>439,436</u>
EXPENDITURES			
General Government	573,109		
Protection to Persons and Property	443,075		482,022
General Health and Sanitation	89,906		
Social Services	26,503		
Recreation and Culture	5,467		
Transportation Facilities and Services		3,019	
Roads		1,793,642	
Debt Service	13,001	127,056	
Capital Projects	52,589	106,202	
Administration	461,866	251,801	161,193
Total Expenditures	<u>1,665,516</u>	<u>2,281,720</u>	<u>643,215</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>352,089</u>	<u>(124,068)</u>	<u>(203,779)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds	17,000	102,655	
Proceeds from Sale of Assets		88,729	
Transfers To Other Funds	(232,035)	(192,212)	
Transfers From Other Funds	192,212		224,000
Total Other Financing Sources (Uses)	<u>(22,823)</u>	<u>(828)</u>	<u>224,000</u>
Net Change in Fund Balances	329,266	(124,896)	20,221
Fund Balances - Beginning	779,587	800,732	2,947
Fund Balances - Ending	<u>\$ 1,108,853</u>	<u>\$ 675,836</u>	<u>\$ 23,168</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

LGEA Fund	Debt Service Fund	Total Governmental Funds
\$	\$	\$ 1,317,309
		74,798
		196,690
42,469	47,680	2,658,440
		202,208
		214,438
210	1,099	42,268
42,679	48,779	4,706,151
		573,109
12,600		937,697
		89,906
		26,503
		5,467
		3,019
		1,793,642
11,246	54,938	206,241
		158,791
99		874,959
23,945	54,938	4,669,334
18,734	(6,159)	36,817
		119,655
		88,729
		(424,247)
	8,035	424,247
	8,035	208,384
18,734	1,876	245,201
7,943	20,036	1,611,245
\$ 26,677	\$ 21,912	\$ 1,856,446

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ 245,201
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	844,913
Depreciation Expense	(215,985)
Book Value of Disposed Assets	(12,015)
Assets Held For Resale	102,655
Disposal of Asset held for Resale	(97,000)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets. Financing Obligation Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources.	
Financing Obligation Proceeds	(119,655)
Financing Obligations Principal Amount	173,268
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 921,382</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

BUTLER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 8,639
Total Assets	<u>8,639</u>
 Net Assets	
Unrestricted	8,639
Total Net Assets	<u><u>\$ 8,639</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 49,084
Total Operating Revenues	<u>49,084</u>
Operating Expenses	
Cost of Sales	37,981
Educational and Recreational	3,415
Personnel Costs	6,648
Sales Tax	2,331
Miscellaneous	<u>13</u>
Total Operating Expenses	<u>50,388</u>
Operating Loss	<u>(1,304)</u>
Nonoperating Revenues	
Inmate Pay From State	50
Inmate Refunds	<u>(50)</u>
Total Nonoperating Revenues	<u>0</u>
Change In Net Assets	(1,304)
Total Net Assets - Beginning	<u>9,943</u>
Total Net Assets - Ending	<u><u>\$ 8,639</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 49,084
Payments to Suppliers	(43,740)
Payments to Employees	(6,648)
Net Cash Used By	
Operating Activities	(1,304)
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	50
Inmate Refunds on Accounts	(50)
Net Cash Provided By Noncapital Financing Activities	0
Net Decrease in Cash and Cash Equivalents	(1,304)
Cash and Cash Equivalents - July 1, 2007	9,943
Cash and Cash Equivalents - June 30, 2008	\$ 8,639
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Loss	\$ (1,304)
Net Cash Used By Operating Activities	\$ (1,304)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. All other component units are discretely presented. Based upon the application of criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Butler County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Butler County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for the payment of long-term debt principal and interest.

Special Revenue Funds

The Road Fund, Jail Fund, and Local Government Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, furniture and fixtures, machinery, equipment, vehicles, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 5,000	3-25
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 191,933	\$	\$	\$ 191,933
Construction In Progress		37,515		37,515
Total Capital Assets Not Being Depreciated	191,933	37,515		229,448
Capital Assets, Being Depreciated:				
Buildings	1,486,694		(80,100)	1,406,594
Other Equipment	785,426	87,415		872,841
Vehicles and Equipment	816,617	36,000		852,617
Infrastructure	1,658,595	683,983		2,342,578
Total Capital Assets Being Depreciated	4,747,332	807,398	(80,100)	5,474,630
Less Accumulated Depreciation For:				
Buildings	(931,375)	(35,091)	68,085	(898,381)
Other Equipment	(557,568)	(40,173)		(597,741)
Vehicles and Equipment	(743,998)	(38,763)		(782,761)
Infrastructure	(141,874)	(101,958)		(243,832)
Total Accumulated Depreciation	(2,374,815)	(215,985)	68,085	(2,522,715)
Total Capital Assets, Being Depreciated, Net	2,372,517	591,413	(12,015)	2,951,915
Governmental Activities Capital Assets, Net	\$ 2,564,450	\$ 628,928	\$ (12,015)	\$ 3,181,363

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 44,697
Protection to Persons and Property	26,479
General Health and Sanitation	5,444
Roads, Including Depreciation of General Infrastructure Assets	139,365
Total Depreciation Expense - Governmental Activities	<u>\$ 215,985</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Financing Obligations

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2008 was \$375,000. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	\$ 34,000	\$ 21,025
2010	36,000	18,995
2011	37,000	16,873
2012	39,000	14,669
2013	41,000	12,348
2014-2017	188,000	23,696
Totals	<u>\$ 375,000</u>	<u>\$ 107,606</u>

B. Fire Truck

On December 30, 1999, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$41,000 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2008 was \$7,462. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	\$ 4,674	\$ 216
2010	2,788	38
Totals	<u>\$ 7,462</u>	<u>\$ 254</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Financing Obligations (Continued)

C. Fire Truck

On November 30, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$48,902 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2008 was \$13,954. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	\$ 5,608	\$ 462
2010	5,906	230
2011	2,440	25
Totals	<u>\$ 13,954</u>	<u>\$ 717</u>

D. Tractor and Mower

On May 6, 2005, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a tractor and mower. The principal was \$54,768 at a rate of 3.33% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2008 was \$24,768. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	10,000	862
2010	14,768	366
Totals	<u>\$ 24,768</u>	<u>\$ 1,228</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Financing Obligations (Continued)

E. Road Equipment

On October 11, 2005, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of road equipment. The principal was \$56,480 at a rate of 3.73% interest for a period of 5 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2008 was \$32,480. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	\$ 12,000	\$ 1,179
2010	12,000	641
2011	8,480	50
Totals	<u>\$ 32,480</u>	<u>\$ 1,870</u>

F. Vehicle

On April 17, 2008, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a vehicle. The principal was \$17,000 at a rate of 4.556% interest for a period of 36 months, interest paid monthly and principal paid monthly. Principal outstanding as of June 30, 2008 was \$16,106. Future payment requirements are:

Fiscal Year June 30	Governmental Activities	
	Principal	Interest
2009	\$ 5,489	\$ 498
2010	5,700	381
2011	4,917	257
Totals	<u>\$ 16,106</u>	<u>\$ 1,136</u>

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 529,038</u>	<u>\$ 17,000</u>	<u>\$ 76,268</u>	<u>\$ 469,770</u>	<u>\$ 71,771</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 529,038</u>	<u>\$ 17,000</u>	<u>\$ 76,268</u>	<u>\$ 469,770</u>	<u>\$ 71,771</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 5. Short-term Debt

On April 7, 2008, the Butler County Fiscal Court entered into a short-term lease agreement with the Kentucky Association of Counties to borrow \$102,655 in order to finance the purchase of a Mac Truck. The agreement calls for monthly interest payments with an average interest rate of 3.946%. The principal is due on April 7, 2009.

Primary Government:	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 97,000</u>	<u>\$ 102,655</u>	<u>\$ 97,000</u>	<u>\$ 102,655</u>	<u>\$ 102,655</u>
Governmental Activities					
Short-term Liabilities	<u>\$ 97,000</u>	<u>\$ 102,655</u>	<u>\$ 97,000</u>	<u>\$ 102,655</u>	<u>\$ 102,655</u>

Note 6. Interest on Financing Obligations and Short-term Debt

Debt Service on the Statement of Activities includes \$27,822 on financing obligations and \$5,151 in interest on short-term debt.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

Butler County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 8. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2008, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,067,000	\$ 1,067,000	\$ 1,317,309	\$ 250,309
In Lieu Tax Payments	48,000	48,000	74,798	26,798
Excess Fees	70,000	70,000	196,690	126,690
Intergovernmental Revenue	60,200	60,200	96,686	36,486
Charges for Services	240,000	240,000	144,457	(95,543)
Miscellaneous	74,600	105,445	160,522	55,077
Interest	10,000	10,000	27,143	17,143
Total Revenues	<u>1,569,800</u>	<u>1,600,645</u>	<u>2,017,605</u>	<u>416,960</u>
EXPENDITURES				
General Government	577,188	629,839	601,146	28,693
Protection to Persons and Property	715,136	671,968	444,465	227,503
General Health and Sanitation	81,150	94,268	89,906	4,362
Social Services	3,900	29,263	26,503	2,760
Recreation and Culture	5,000	5,467	5,467	
Administration	685,400	733,114	490,455	242,659
Total Expenditures	<u>2,067,774</u>	<u>2,163,919</u>	<u>1,657,942</u>	<u>505,977</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(497,974)</u>	<u>(563,274)</u>	<u>359,663</u>	<u>922,937</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(252,693)	(252,693)	(224,000)	28,693
Transfers From Other Funds	190,000	190,000	192,212	2,212
Total Other Financing Sources (Uses)	<u>(62,693)</u>	<u>(62,693)</u>	<u>(31,788)</u>	<u>30,905</u>
Net Changes in Fund Balance	(560,667)	(625,967)	327,875	953,842
Fund Balance - Beginning	<u>777,067</u>	<u>842,367</u>	<u>777,067</u>	<u>(65,300)</u>
Fund Balance - Ending	<u>\$ 216,400</u>	<u>\$ 216,400</u>	<u>\$ 1,104,942</u>	<u>\$ 888,542</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,205,237	\$ 1,807,301	\$ 2,105,043	\$ 297,742
Miscellaneous			127,522	127,522
Interest	5,500	5,500	13,816	8,316
Total Revenues	1,210,737	1,812,801	2,246,381	433,580
EXPENDITURES				
Transportation Facilities and Services	60,000	60,000	3,019	56,981
Roads	926,025	2,029,291	1,920,698	108,593
Capital Projects	4,000	4,000	3,547	453
Administration	261,250	260,048	251,801	8,247
Total Expenditures	1,251,275	2,353,339	2,179,065	174,274
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(40,538)	(540,538)	67,316	607,854
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(190,000)	(190,000)	(192,212)	(2,212)
Total Other Financing Sources (Uses)	(190,000)	(190,000)	(192,212)	(2,212)
Net Changes in Fund Balance	(230,538)	(730,538)	(124,896)	605,642
Fund Balance - Beginning	800,732	1,300,732	800,732	(500,000)
Fund Balance - Ending	\$ 570,194	\$ 570,194	\$ 675,836	\$ 105,642

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 343,840	\$ 343,840	\$ 366,562	\$ 22,722
Charges for Services	45,200	55,200	57,751	2,551
Miscellaneous	8,100	13,100	15,123	2,023
Total Revenues	397,140	412,140	439,436	27,296
EXPENDITURES				
Protection to Persons and Property	471,743	492,076	482,022	10,054
Administration	178,090	172,757	161,193	11,564
Total Expenditures	649,833	664,833	643,215	21,618
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(252,693)	(252,693)	(203,779)	48,914
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	252,693	252,693	224,000	(28,693)
Total Other Financing Sources (Uses)	252,693	252,693	224,000	(28,693)
Net Changes in Fund Balance			20,221	20,221
Fund Balance - Beginning	2,947	2,947	2,947	
Fund Balance - Ending	\$ 2,947	\$ 2,947	\$ 23,168	\$ 20,221

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 20,000	\$ 20,000	\$ 42,469	\$ 22,469
Interest			210	210
Total Revenues	<u>20,000</u>	<u>20,000</u>	<u>42,679</u>	<u>22,679</u>
EXPENDITURES				
Protection to Persons and Property	20,000	27,845	23,846	3,999
Administration		99	99	
Total Expenditures	<u>20,000</u>	<u>27,944</u>	<u>23,945</u>	<u>3,999</u>
Net Changes in Fund Balance		(7,944)	18,734	26,678
Fund Balance - Beginning	<u>7,943</u>	<u>15,887</u>	<u>7,943</u>	<u>(7,944)</u>
Fund Balance - Ending	<u>\$ 7,943</u>	<u>\$ 7,943</u>	<u>\$ 26,677</u>	<u>\$ 18,734</u>

BUTLER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Beginning Fund Balance-Budgetary Basis	\$ 777,067
To Record Ambulance Account	<u>2,520</u>
Total Beginning Fund Balance-Modified Cash Basis	<u><u>\$ 779,587</u></u>
Total Expenditures-Budgetary Basis	\$ 1,657,942
To Record Capital Addition Not Budgeted	17,000
To Record Ambulance Account	(1,391)
To Record Transfer of Debt Payments	<u>(8,035)</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 1,665,516</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (31,788)
To Record Transfer of Debt Payments	(8,035)
To Record Finance Obligations Proceeds Not Budgeted	<u>17,000</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ (22,823)</u></u>

Reconciliation of the Road Fund

Total Revenues-Budgetary Basis	\$ 2,246,381
To Reclass Proceeds From Sale of Asset	<u>(88,729)</u>
Total Revenues-Modified Cash Basis	<u><u>\$ 2,157,652</u></u>
Total Expenditures-Budgetary Basis	\$ 2,179,065
To Record Purchase of Asset Not Budgeted	<u>102,655</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 2,281,720</u></u>
Total Other Financing Sources and Uses-Budgetary Basis	\$ (192,212)
To Record Finance Obligations Proceeds Not Budgeted	102,655
To Reclass Proceeds From Sale of Asset	<u>88,729</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ (828)</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



Peercy and gray, PSC
Certified Public Accountants
2300 Hurstbourne Village Drive, Suite 500
Louisville, Kentucky 40299
Phone: (502) 493-1090
FAX: (502) 493-7231

The Honorable David Fields, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Butler County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 17, 2008. Butler County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Butler County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Butler County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Fiscal Court Should Record Capital Assets In Accordance With The Approved Capitalization Policy

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Butler County's financial statements for the year ended June 30, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Butler County's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

October 17, 2008

**BUTLER COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2008

**BUTLER COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2008

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Fiscal Court Should Record Capital Assets In Accordance With The Approved Capitalization Policy

During our review of capital assets, we discovered the following:

- The disposal of the County Barn was not recorded, nor was the Construction in Progress in the amount of \$37,515 for the new County Barn. All costs associated with the construction of a building, including demolition of a current structure, are required to be capitalized.
- The historical cost of a tractor recorded in Other Equipment was understated by \$58.
- The historical cost of a tractor recorded in Other Equipment was overstated by \$232.
- An analog recorder and a telephone system in the amounts of \$21,582 and \$7,007, respectively, were not recorded in Other Equipment.
- A dump truck in the amount of \$12,000 was not recorded in Vehicles and Equipment.
- Various roads recorded in Infrastructure did not include all costs associated with the completion of the road. Additional costs totaled \$55,931.
- Two bridges totaling \$230,553 were not recorded in Infrastructure.
- Accumulated depreciation from the prior year was not properly recorded on the listing of fixed/capital assets allowing for erroneous calculation of the current year depreciation expense. When the correct prior year accumulated depreciation was used and the above corrections were made, depreciation expense was found to be overstated by \$23,819.

We recommend the Fiscal Court implement procedures to ensure that all capital assets are recorded in accordance with the approved Capitalization Policy and all costs associated with placing the capital asset in service are included.

Response: Finance Officer updated reporting forms and reviewed proper reporting procedures. Finance Officer is new and did not have a complete understanding of reporting system.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

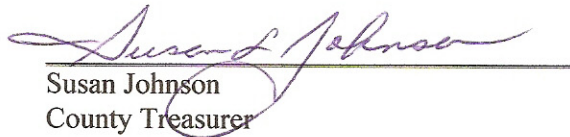
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in purple ink, appearing to read "David Fields", is written over a horizontal line.

David Fields
County Judge/Executive

A handwritten signature in purple ink, appearing to read "Susan Johnson", is written over a horizontal line.

Susan Johnson
County Treasurer

